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March 25, 2004

ATTORNEY AT LAW

Mr. Thomas M. Dorman
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RECEIVED

MAR 25 2004

PUBLIC SERVICE
COMMISSION

RE: City of Hodgenville 2004-00104
Proposed Wholesale Rate Increase to
LaRue County Water District No. 1

Dear Mr. Dorman:

This letter is being written on behalf of the LaRue County Water District No. 1 (the "Water District") and in response to the February 24, 2004 letter from Roger Truitt, Mayor of the City of Hodgenville (the "City"), to the Public Service Commission (the "PSC").

The Water District Board of Commissioners has instructed me to object to the proposed wholesale rate increase sought by the City. The City has notified the Water District and the PSC that its wholesale rate will increase from \$1.58 to \$1.98 per 1,000 gallons. The City plans to make the new rate effective with the April 1, 2004 billing. This is an increase of \$0.40 per 1,000 gallons or approximately 25%.

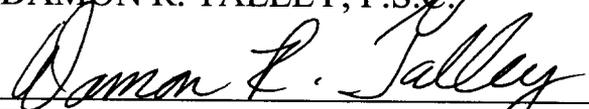
The City's current wholesale rate has been in effect since 1997. Undoubtedly, the City's cost of producing water has increased since 1997, but the City has not yet demonstrated that its actual cost of producing and delivering water to the Water District is \$1.98 per gallon.

Under the mandate of Simpson County Water District v. City of Franklin, 872 SW2d 460 (Ky. 1994), the City cannot unilaterally increase its wholesale rate to the Water District until the rate has been approved by the PSC. To date, the City has neither filed a proposed tariff nor filed a formal rate increase application with the PSC. The

Water District plans to file a Motion for Full Intervention if the City files a proposed tariff or a formal rate increase application. Please promptly notify me if the City makes either filing.

Finally, the Water District hereby requests the PSC Staff to perform a cost of service study for the City and determine the appropriate wholesale rate for the City to charge the Water District. Naturally, the PSC cannot undertake such a study unless the City assents. Both the City and the Water District will save tens of thousands of dollars if the PSC performs the study. Hopefully, the City will agree and will request the PSC Staff to perform a cost of service study.

Yours truly,
DAMON R. TALLEY, P.S.C.


DAMON R. TALLEY, ATTORNEY FOR
HARDIN COUNTY WATER DISTRICT
NO. 2

DRT/ln

Enclosures

cc: LaRue County Water District No. 1
City of Hodgenville